

Message Text

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TAGS: AORG, NATO, OECD

SUBJ: CCG PENSION SCHEME

REF: A. STATE 238584

B. OECD PARIS 26330

SUMMARY: MISSION WOULD LIKE TO OFFER THE FOLLOWING OBSERVATIONS WHICH MAY BE HELPFUL TO DEPARTMENT IN REVIEWING PROBLEM OF VALIDATION OF PAST SERVICE FOR EMPLOYEES JOINING NEW PENSION SCHEME FOR THE COORDINATED ORGANIZATIONS. END SUMMARY

1. THE PROPOSAL OF THE SECRETARIES GENERAL HAS TWO IMPORTANT DISADVANTAGES: IT WOULD MEAN A LOSS TO THE GOVERNMENTS OF A LARGE SUM OF MONEY, ON THE ORDER OF 100 MILLION FRENCH FRANCS (AN ESTIMATED 54 MILLION FRENCH FRANCS IN OECD ALONE), WITH THE US SHARE BEING ABOUT 4 MILLION DOLLARS; IT WOULD DISTRIBUTE LARGE SUMS OF RESIDUE FUNDS TO EMPLOYEES JOINING THE PENSION SCHEME IN AN INEQUITABLE FASHION WITH SOME RECEIVING LARGE FUND RESIDUES AND OTHERS RECEIVING NOTHING. WHILE ONLY THE FIRST OF THESE DISADVANTAGES OBTAINS AT OECD, THEY BOTH OBTAIN AT NATO.

2. THE PURPOSE OF THE CANADIAN PROPOSAL WAS TO OVERCOME THESE DISADVANTAGES. HOWEVER, THE CANADIAN PROPOSAL WOULD BE CLEARER IF IT WERE RESTATED AS FOLLOWS, AND WOULD HAVE ADVANTAGE OF REMOVING APPEARANCE OF GOVERNMENTS TAKING OVER OR MANIPULATING UNCLASSIFIED

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EMPLOYEES' PROVIDENT FUND HOLDINGS OR ACCOUNTS:

"COST OF VALIDATION WOULD BE DETERMINED BY APPLYING THE 21 PLUS 4 PERCENT FORMULA TO SALARY EARNED IN EACH YEAR OF SERVICE, PAYABLE IN CURRENCY OF THAT YEAR. THUS, COST

OF VALIDATION FOR YEAR 1965 IN FRANCE WOULD BE COMPUTED IN 1965 FRANCS, AND SIMILARLY FOR EACH OTHER YEAR. TODAY'S VALUE OF SUCH 1965 FRANCS AND OTHER-YEAR FRANCS WOULD BE THE COST OF VALIDATION."

IT MAY BE POSSIBLE TO INTERPRET ARTICLE 27 OF THE 94TH REPORT OF THE CCG AS PERMITTING THE ADOPTION OF THE CANADIAN PROPOSAL, PARTICULARLY IF RESTATED AS DESCRIBED IN PARA 2, WITHOUT A FURTHER DECISION BY THE COUNCILS. ACCORDING TO ARTICLE 27, VALIDATION SHOULD INVOLVE PAYMENT OF AN AMOUNT "CORRESPONDING TO THE EMPLOYEE'S AND EMPLOYER'S CONTRIBUTIONS OF 7 PCT AND 14 PCT RESPECTIVELY ACTUALLY PAID, IN EACH YEAR, PLUS COMPOUND INTEREST A 4 PCT PER ANNUM."

3. AS REF B POINTS OUT, THE CANADIAN PROPOSAL AS RESTATED MAY CALL FOR VALIDATION PAYMENTS IN THE FULL AMOUNT OF PROVIDENT FUND HOLDINGS. TRACKING OF EACH EMPLOYEE'S HISTORY OF SALARY AND CONTRIBUTIONS WILL BE NECESSARY TO DETERMINE THE FULL FINANCIAL IMPLICATIONS. IF DEPARTMENT BELIEVES IT DESIRABLE TO LEAVE EMPLOYEES WITH SIGNIFICANT RESIDUE AFTER VALIDATING, THERE ARE TWO POSSIBLE FORMULAS WHICH WOULD EQUITABLY DISTRIBUTE SUCH RESIDUE:

A. BEST FORMULA MIGHT BE APPLICATION OF CANADIAN PROPOSAL AS RESTATED IN PARA 2 BUT WITH A LOWER RATE OF INTEREST THAN 4 PCT;

B. ANOTHER FORMULA WOULD BE BASED ON THE FRENCH FRANC AS THE UNIT OF ACCOUNT IN WHICH ALL CALCULATIONS OF VALIDATION COST WERE COMPUTED, REGARDLESS OF ORGANIZATION OR ACTUAL CURRENCY OF PAST SALARY. ALL EMPLOYEES OF ALL ORGANIZATIONS INCLUDING NATO WOULD BENEFIT IN COMPARABLE FASHION BY FACT THAT FRENCH FRANC HAS DEPRECIATED.

4. APPLICATION OF FORMULA B) WHILE EQUITABLE WOULD BE MORE COSTLY EVEN THAN PROPOSAL OF SECRETARIES GENERAL, FOR FRENCH FRANC HAS DEPRECIATED MORE THAN BELGIAN FRANC IN WHICH MOST NATO EMPLOYEES ARE PAID. LOSS TO GOVERNMENTS WOULD BE PERHAPS 125 MILLION FRENCH FRANCS, WITH THE U.S. SHARE SOME FIVE MILLION DOLLARS.

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5. THE CANADIAN REP HAS POINTED OUT THAT IT WOULD NOT BE EQUITABLE IF HIS PROPOSAL WERE APPLIED AT NATO ONLY. STREATOR

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